



# 1979 WHEAT AND FEED GRAIN SET ASIDE PROGRAM:

## OPPORTUNITIES AND RULES

DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY  
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## The 1979 Set Aside Program: Opportunities and Rules

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Producers may find it profitable to more carefully look at prices, costs and provisions of the farm program to see whether some changes should be made in their cropping pattern for 1979.

The Food and Agricultural Act of 1977 offers various types of protection to grain producers -- non-recourse loans, a grain reserve, deficiency payments and disaster protection. Eligibility requires compliance with a land set aside and a normal crop acreage. A paid diversion for voluntarily reducing corn acreage is available. Total payments limitations have been increased. Corn and wheat are the program crops featured in this discussion. Other program crops include sorghum and barley. Producers of these crops should check with their local ASCS office to secure details.

### Target Prices and Loan Rates

Loan rates are unchanged from 1978 but target prices were raised. For 1979, the corn loan rate is \$2.00 and the target price is \$2.20 per bushel. For wheat harvested in 1979, the loan rate is \$2.35 and the target price is \$3.40 per bushel. For soybeans the loan rate is \$4.50 per bushel.

### Set Aside Requirements

Some cropland must be set aside to conserving uses to be eligible for price deficiency payments, commodity loans and disaster production. Wheat planted for 1979 harvest requires a 20 percent set aside. This means 2 acres are set aside for each 10 acres of wheat planted. To be eligible for corn program benefits, 10 percent of the 1979 planted acreage must be set aside. Deficiency price payments on both the crops will be

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<sup>1/</sup> Correct as of February 22, 1979. Changes may alter the rules. Check with your local ASCS office.

available on 80 to 100 percent of the planted acreage so long as the set aside is observed.

Several requirements must be observed in the choice and operation of the set aside acreage. Generally, farmers may set aside acreage that has been tilled within one or more of the last three years or was eligible and designated as a set aside or was voluntary diverted to conserving uses. The acres set aside to conserving uses need not be equal in productivity to those planted to corn or wheat. The vegetative cover must be established no later than for normal spring planted crops. Harvesting of set aside acres is prohibited. Likewise, grazing is prohibited in the six principal growing months, but grazing in most counties is permitted from September 1 to March 1 each year.

#### Voluntary Acreage Reduction

Another way to become eligible for price protection is to reduce planted acreage below 1978 levels. This approach makes the producer eligible for guaranteed target price protection on 100 percent of the 1979 acreage for a set aside crop. To comply a producer voluntarily reduces the acreage planted below the larger of the 1978 actual acreage or "considered planted acreage." The considered planted acreage includes the 1978 set aside acreage, prevented planting acreage and voluntary acreage reductions in 1978. For wheat there is a 15 percent voluntary reduction below the 1978 acreage; for corn a 10 percent voluntary reduction makes the producer eligible for 100 percent price guarantee. When producers exceed their 1978 acreage, reduced deficiency payment on the output from at least 80 percent of the 1979 acreage is available by abiding by the set aside and normal crop acreage (NCA). Table 1 summarizes the set aside and voluntary reduction rules.

Table 1. SET ASIDE AND VOLUNTARY REDUCTIONS

Crop	Set Aside <sup>1/</sup> (% of 1979)	Voluntary Diversion <sup>2/</sup> (% of 1978)
Corn	10	10
Wheat	20	15
Barley	20	30
Sorghum	10	10

1/ Assures target price protection or deficiency payments on 80 to 100 percent of the 1979 acreage, commodity loans and disaster protection.

2/ Guarantees target price protection on 100 percent of the planted acreage.

#### Normal Crop Acreage

The normal crop acreage (NCA) consists of the 1977 acres planted to qualifying crops grown in Ohio: corn, barley, oats, rye, sorghum, wheat, soybeans, sugar beets, sunflowers, dry edible beans, potatoes, popcorn and sweet corn. Excluded are hay, cropland pasture, vegetables, and tobacco. If the cropping pattern was unusual, adjustments may be made upon request to the county ASCS office.

To be eligible for 1979 program benefits, the total acreage of the qualifying crops planted and the considered planted acres on a participating farm plus acres set aside cannot exceed the farm's NCA. Each farm's 1978 plantings need to be reported to the county ASCS office.

#### Double Cropping

Land that is double cropped in wheat and soybeans will be counted only once in the NCA. So if 100 acres is harvested for wheat in 1979 and then planted to soybeans, the acreage will be counted only once (i.e. 100 acres and not 200 acres). The wheat set aside requirement of 20 percent must be met, and the producer will need to keep within the permitted NCA to be eligible for program benefits.

#### Cross Compliance

Farmers producing both wheat and feed grains on a farm must comply with

the set aside on both crops and the NCA to be eligible for a commodity loan, deficiency payments and disaster protection. To be eligible for loans or purchases on the soybean crop requires meeting the program set aside on wheat and corn and meeting the NCA requirement. If no set aside crops are planted, any acreage of soybeans can be planted and the produce will be eligible for a loan.

#### Offsetting Compliance

Farmers can participate in the set aside program and receive benefits on one farm and not another, provided that the NCA is not exceeded on the non-participating farm when a crop subject to the set aside is planted on the non-participating farm.

#### Planted Acreage

The planted acreage of corn or wheat for 1979 harvest can exceed the 1978 actual or 1978 considered planted acreage as long as the set aside and the NCA requirements are met on participating farms. In this case, producers are eligible for 1) loans on all the crop produced, 2) possible reduced deficiency payments, if the market price is below the target price, and 3) disaster protection on the planted acreage. Again the NCA cannot be exceeded.

#### Diversion and Diversion Payments

Diversion payments for corn and sorghum producers participating in the set aside program are available if an additional 10 percent of the 1979 corn acreage is diverted to conserving crops. The payment is \$1.00 per bushel X the farm yield X the acres voluntarily reduced and diverted to conserving uses. There is no diversion payment for wheat producers.

The table below shows a potential range of 1979 acreages for corn, soybeans and wheat on a 600 acre farm. The NCA is 500 acres, since hay crops are excluded from the NCA.

Table 2. EXAMPLES OF 1979 CROP ORGANIZATION

	1978 Acreage	1979 Organization <sup>1/</sup>			
		A	B	C	D
Corn	200	163.6	200	416.7	0
Soybeans	150	150	150	0	550
Wheat	100	85	100	0	0
Other Qualifying Crops <sup>2/</sup>	50	50	50	0	50
Set Aside	0	35		41.6	
Voluntary Diversion	0	16.4	0	41.7	0
Normal Crop Acreage (NCA) <sup>3/</sup>	500	500	500	500	500
Alfalfa Hay <sup>4/</sup>	100	100	100	100	0
Subject to Allocation	--	No	No	Yes	No
Eligible for Benefits	--	Yes	No	Yes	Yes

<sup>1/</sup> Participation rules: 20 percent for wheat and 10 percent for feed grains set aside on the 1979 planted acreage. Voluntary reduction required below the 1978 acreage is 15 percent for wheat and 10 percent for corn for 100 percent price protection. To be eligible for a corn diversion payment requires a voluntary diversion of 10 percent from the 1979 acreage.

<sup>2/</sup> Other qualifying crops include oats, rye, soybeans, sugar beets, sunflower seed, popcorn, sweet corn, dry edible beans and potatoes.

<sup>3/</sup> Not a qualifying crop thus not counted in the NCA. Rotated hay and pasture-land, spelts, vegetables, and tobacco are "non qualifying crops".

Example A: This organization calls for participation with a cropping pattern similar to 1978. Compliance in the program is designed to receive 100 percent price guarantee and diversion payments on corn. Corn and wheat acreage planted for 1979 harvest are reduced 10 and 15 (see set aside above) percent respectively for a total of 35 acres. This set aside from the 1978 acreage is to meet the 100 percent price protection requirement.

The 16.4 acres meets the 10 percent additional diversion requirement from the 1979 plantings of corn. The producer becomes eligible for corn diversion payments. The producer meets the NCA requirement.

An easy calculation method to determine the voluntary diversion and cow acreage is to divide the available acres for corn (180 acres) by 1.1. The difference between available corn acreage and planted acreage is the voluntary diversion. The difference of 16.4 acres (180 - 163.6 = 16.4) is diverted to conserving uses. The producer meets the NCA requirement.

Example B: The producer chooses to farm the same as in 1978. No acreage is set aside. The producer is ineligible for crop loans, price deficiency payments and disaster protection. The farm income will be generated from market prices only.

Example C: The producer chooses to participate in the set aside program, stays within his 500 acre NCA, becomes eligible for the corn diversion payment, and grows the maximum acreage of corn. The set aside requirement is 10 percent of the 1979 planted acreage of corn.

An easy calculation method is to divide 500 acres by 1.2 to determine the acres of corn to plant. This leaves 41.6 for the voluntary diversion and 41.7 for the set aside. The producer is

eligible for a commodity loan on the entire corn crop, a reduced deficiency payment, disaster protection, and the corn diversion payment.

Example D: This producer chooses to eliminate the wheat, corn and hay crops and grow only soybeans. No set aside is required. Since no set aside crop was planted there is no NCA limitation in 1979. A soybean loan may be obtained on the entire soybean crop.

#### Signup

Farmers voluntarily sign an intent to participate in both the wheat and feed grain program February 15 until April 30 at their local ASCS office. In the meantime, producers plant their corn and have acreage ready to designate as a set aside to an approved cover for both wheat and corn. Final designation of the set aside and participation is made in the summer. The program is voluntary and flexible. Plantings may vary from stated intentions and producers may withdraw from participation at any time.

#### Non-Recourse Loans

Loans and purchase agreements are available to participating producers for the entire production of each eligible crop. The U. S. loan rate for the 1979 wheat crop is \$2.35 per bushel; corn is \$2.00; the soybean loan is \$4.50 per bushel. An important point for soybean producers is that eligibility for a soybean loan requires meeting both the wheat and feed grain set aside requirements and NCA rules. If no set aside crop, such as corn or wheat, is planted on a farm, a soybean loan can be secured on all acreage planted.

Loans may be terminated at any time either by repayment of a loan plus interest due or by surrender of the stored grain securing the loan to CCC at loan maturity. The maturity period is 9 months from the date of the loan.

#### Yields

Program payment yields are assigned by the county ASCS. Some verification of total bushels produced, like sales slips over a three year period, will be useful in adjusting or proving program payment yield levels. If the yields assigned or the NCA are out of line, they can be appealed at the local ASCS office.

### Deficiency Payments

Wheat and corn producers complying with the set aside and NCA will be eligible for price deficiency payments. The acreage planted to set aside crops, farm program payment yields, and prices (market, loan, and target) all influence the amount of the deficiency payment.

The payment rate per bushel for a set aside crop will be the difference between the target price and the national average price received by farmers for the first five months of the market year, but it will not exceed the difference between the target price and the loan rate. For example, the maximum payment rate per bushel on wheat will be \$1.05 ( $\$3.40 - \$2.35$ ) per bushel. On corn, the maximum payment rate is 20 cents per bushel with a \$2.20 target price and a \$2.00 loan rate. If wheat prices for the first five months of the market year (June-October, 1979) average \$3.15 per bushel, the payment rate will be 25¢. If wheat prices reach \$3.40 per bushel for the first five months of the 1979 market year, no price deficiency payment will be made.

The price deficiency payment is made on the program payment yield times the planted acres, providing eligibility requirements are met.

These are two extreme levels of deficiency payments for both corn and wheat based on planted acreage.

Example 1: For maximum price deficiency payment of 100 percent target price guarantee on all acreage of corn or wheat grown in 1979. To be eligible a producer 1) voluntarily reduces corn acreage 10 percent and wheat acreage 15 percent below the 1978 acreage, 2) meets the NCA, and 3) meets the cross compliance requirements. The price deficiency payment formula: 1979 planted acreage times farm program payment yields times (target price minus the higher of first 5 month national average market price or loan).

Farm organization A fits the description. We will use wheat as the example. The producer grows 85 acres of wheat and we assume he has a 45 bushel program payment yield and wheat prices will average \$3.15 per bushel for the June through October period. Thus,  $85 \text{ acres} \times 45 \text{ bushel yield} \times \$0.25 (\$3.40 - 3.15 = \$0.25) = \$965.25$  price deficiency payment.



Example 2: 1979 plantings of a set aside crop exceed 1978 with reduced deficiency payments. Producers participate by meeting the set aside, voluntarily reduces the acreage of program crops, and meets the NCA. The size of the payment is also dependent upon an "allocation factor." This will be based on the share of the national farm wheat and corn acreage needed to meet normal domestic and export needs divided by the actual number of acres harvested in 1979. The designated acreage to meet these needs (in millions of acres) is 57.1 for wheat, 63.7 for corn, 13.2 for sorghum, and 6.5 for barley. The allocation factor cannot be less than 80 nor more than 100.

For 1979, we assume the wheat allocation factor at 90; corn at 80. For corn the reduced deficiency payment formula would be 80 percent of the 1979 planted acreage on the participating farm times the farm program payment yield times (\$2.20 minus the higher of October, 1979 to February, 1980 market price or \$2.00 loan).

Let's use farm organization C in Table 2 with 416.7 acres planted to corn. The farm has been assigned a farm program payment yield of 100 bushels per acre, and we will assume corn prices average \$2.10 per bushel for the period October, 1979 through February, 1980. The arithmetic would be 80% of 416.7 acres X 100 bushels per acre X \$.10 = \$3333.60 price deficiency payment.

Land Diversion: In farm organization C in Table 2 the producer participates in the set aside program and voluntarily reduced his 1979 planted corn acreage by an additional 10 percent making him eligible for diversion payments. The payment formula is \$1.00 per bushel times the farm yield on the diverted acres. Thus the payment will be \$1.00 X 100 bushel yield X 41.6 acres = \$4160.00 land diversion payment.

#### Disaster Protection

Two types of protection are available to participants in the set aside program. They are the production risks of prevented plantings and low yields.

The payment for low yields is 50 percent of the target price on the shortfall below 60 percent of the farm program yield for all acres planted to corn or wheat. For example, on farm organization C, if the 1979 corn yields actually are 40 bushels per acre with a farm program payment yield of 100 bushels, the arithmetic would be 416.7 acres X 20 bushels X \$1.10 = \$9,167.40 low yield payment.

The prevented planting protection is based on the smaller of a) the 1979 acreage intended for planting that could not be planted, or b) the amount the 1978 acreage planted exceeds the 1979 planted acreage. The

payment rate is 1/3 of the target price on 75 percent of the normal yield. On farm organization A let's assume that 30 acres of corn were not planted because of flooding and the farm program payment yield is 100 bushels per acre. The arithmetic would be 30 acres X 75 bushels per acre X \$0.73 (1/3 of \$2.20) = \$1642.50. Producers cannot receive both a disaster payment and price deficiency payment on the same acreage.

#### Payment Limitation

There is a limit of \$45,000 that one farm operator can receive under the set aside program for price deficiency and diversion payments. This limitation does not apply to loans or to payments for either prevented plantings or low yield disaster losses.

#### Grain Reserves

A farmer owned grain reserve program was available for 1978 feed grains and wheat. The law provides these grains be placed under loan for the first year at the farmers expense in either farmer owned storage or in a warehouse. In the second year the grain is eligible for the grain reserve program. The length of the grain reserve program is 3 years. An annual advance storage payment of 25¢ per bushel for corn and wheat is made by CCC. In early 1979 there were 411 and 732 million bushels of wheat and corn respectively in the reserve program. These amounts exceed the announced reserve goals. There is no indication that additional grain will be placed in the reserve program from crops harvested in 1979. Some 1973 corn may become eligible for the reserve program in 1979.

Rotation of grains is permitted to maintain quality providing prior approval is secured. See your local ASCS office about procedures.

The grain can be released from the reserve program when the national average market price reaches 125 percent of the current loan rate for corn, or 140 percent of the current loan rate for wheat. Using 1979 loan levels, the no penalty release prices are \$2.50 and \$3.29 per bushel for corn and

wheat respectively. The Secretary of Agriculture can call the loan when the national average market price for corn reaches 140 percent of the current corn loan rate (\$2.80 per bushel) and 175 percent for wheat (\$4.11 per bushel). The farmer has the option to deliver the grain to CCC at this time, or to repay the loan with interest.

Early redemption of the grain prior to reaching the release levels of 125 percent for corn and 140 percent for wheat is possible but entails penalties. Repayment includes all advanced storage payments plus interest at 6 percent on these payments and the original loan plus 6 percent interest. The repayment must equal 140 percent for wheat or 125 percent for corn of the current loan rate times the quantity redeemed.

Farm storage facility loans for up to two years production are available. See your local ASCS office about the possibilities.

#### Conclusion

The set aside program is voluntary. Maximum flexibility is provided to permit farmers the opportunity to use their best judgment on the crops to be produced and the marketing strategies most appropriate for each operation. Actual crop plantings may vary from the intended plantings listed at the time of signing the intentions to participate. Producers can withdraw from participation at any time.

The crop insurance or production risk phase of the program is free to those voluntarily participating in the set aside program. No fee or payment is necessary for participants to be eligible for prevented plantings or for low yield payments. The opportunity to drain land is encouraged through assigning low yield acreage to the set aside.

There are tradeoffs, particularly on prices, to be considered in a farmers decision to participate or not participate in the set aside program. If a producer chooses to stay out of the program, he is taking the risk

that the loan rate will still support the market. For example, if few growers participate and thus are ineligible for corn loans at \$2.00 per bushel, the loan rate may not be an effective price floor for the corn crop. On the other side, if corn output is lowered substantially because of high participation, drouth, unexpectedly large demand, etc. the market year price may exceed the target price of \$2.20 per bushel. In this case no price deficiency payment is made even though acres have been set aside. The deficiency payment portion of the program is directed toward price risk.

Voluntary diversion from the 1979 acreage planted to corn by 10 percent beyond the set aside and meeting other program requirements assures the producer diversion payments. The diversion payment is made regardless of price.

The following farm example outlines a procedure that you can use to evaluate your situation and help to arrive at a decision on whether or not to participate. Major factors to consider are: 1978 cropping pattern, 1979 and future cropping patterns, prices and yields expected in 1979, NCA and program payment yields, the potential for using the less productive land for set aside purposes, need to avoid the risk of low prices, opportunity to apply soil management practices while land is in set aside for a crop year, and other factors.

Assumptions:

1. Farm of 600 acres with 100 acres of nonqualifying crops and 500 acres of normal crop acreage in 1978. The normal crop acreage includes 200 acres of corn, 150 of soybeans, 100 of wheat, and 50 acres of other qualifying crops.
2. Farm program payments yields have been established on the farm at 110 bushels of corn and 45 bushels of wheat.
3. Actual yields harvested in 1979 will be 110 bushels of corn and 45 bushels of wheat.
4. Average annual market prices received by farmers for corn are assumed at two levels of \$2.10 and \$2.25 per bushel and wheat at \$3.10.
5. The average price for the first five months of the wheat market year (June-October) will be \$3.00 per bushel and for corn \$2.00 (October-February).

6. Storage facilities are available to handle all the corn and wheat produced.
7. The producer wants to participate in the corn voluntary diversion program and to be eligible for 100 percent price guarantee. Many other options are possible. Calculate your returns from various options using your farm's NCA, program and anticipated yields, costs and assumed prices.

Table 3: CROPPING PATTERN FOR A NON-PARTICIPANT AND A PARTICIPANT

CROPS	Non-Participant <sup>1/</sup> (Acres)	Participant <sup>1/</sup> (Acres)	My Farm
Corn	200	163.6	_____
Wheat	100	85	_____
Soybeans	150	150	_____
Other qualify crops	50	50	_____
Hay	100	100	_____
Voluntary Diversion	--	16.4	_____
Set Aside	--	35	_____
Total Acres in Farm	600	600	_____

<sup>1/</sup> Crop organization B and A, respectively in Table 2.

Table 4a: PARTIAL BUDGET FOR A PARTICIPANT AND NON-PARTICIPANT  
(Corn & Wheat Only on Farms A and B in Table 2)

CASH RECEIPTS	Non-Participant and Corn Prices of		Participant and Corn Prices of		My Farm
	\$2.10	\$2.25	\$2.10	\$2.25	
Corn					
200 AC. X 110 bu = 22,000	\$46,200.00	49,500.00	--	--	_____
163.6 AC. X 110 bu = 17,996	--	--	\$37,791.60 <sup>1/</sup>	\$40,491.00 <sup>1/</sup>	_____
Wheat @ \$3.10 per bushel					
100 AC. X 45 bu = 4,500	13,950.00	13,950.00	--	--	_____
85 AC. X 45 bu = 3,825	--	--	11,857.50	11,857.50	_____
Market Receipts on Corn and Wheat	60,150.00	63,450.00	49,649.10	52,348.50	_____
Deficiency Payment	None	None	5,129.20 <sup>2/</sup>	5,129.20 <sup>2/</sup>	_____
Diversion Payment on Corn	None	None	1,804.00 <sup>3/</sup>	1,804.00 <sup>3/</sup>	_____
Total	\$60,150.00	\$63,450.00	\$56,582.30	\$59,281.70	_____

<sup>1/</sup> Corn can be put under loan at \$2.00 per bushel

<sup>2/</sup> 163.6 AC. corn X 110/bu/A X \$.20 (\$2.20 target - \$2.00 = .20) = \$3,599.20

85 AC. wheat X 45 bu/A X \$.40 (\$3.40 target - \$3.00 = .40) = \$1,530.00

<sup>3/</sup> 16.4 AC. corn X 110 bu/Z X \$1.00 = \$1,804.00

Table 4b: VARIABLE EXPENSES: PARTIAL BUDGET FOR A PARTICIPANT AND NON-PARTICIPANT  
(Fixed Costs Excluded)

VARIABLE CASH EXPENSES	Non-Participant		Participant		My Farm
Corn					
\$110/AC. X 200 AC.	\$22,000.00	\$22,000.00	--	--	
\$110/AC X 163.6 AC.	--	--	\$17,996.00	\$17,996.00	
Wheat					
\$70/AC X 100 AC.	7,000.00	7,000.00	--	--	
\$70/AC. X 85 AC.	--	--	5,950.00	5,950.00	
Set Aside					
Weed control and seeding @ \$15 per acre	None	None	525.00	525.00	
Total	\$29,000.00	\$29,000.00	\$24,471.00	\$24,471.00	

1/ Ohio Crop Enterprise Budgets for 1979, MM 388

Table 4c: SUMMATION: PARTIAL BUDGET FOR A PARTICIPANT AND NON-PARTICIPANT  
(Fixed Costs Excluded)

TOTAL RECEIPTS LESS CASH EXPENSES	Non-Participant		Participant		My Farm
Corn @ \$2.10	\$31,150.00	--	\$32,111.30	--	
Corn @ \$2.25	--	\$34,450.00	--	\$34,810.70	

